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BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY
OPPORTUNITY

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Chairwoman Roukema and Members of the Subcommittee, thank you for the opportunity to testify before you today. My name is Roy Bernardi and I am the Assistant Secretary for Community Planning and Development at the Department of Housing and Urban Development. On behalf of Secretary Martinez I want to extend our commitment to work with you to improve the effectiveness of the Community Development Block Grant (CDBG) program and to assure that America's neediest communities receive adequate Federal resources to meet local development needs.

We are certainly appreciative of the additional \$95 million appropriated for the Department's CDBG formula programs for fiscal year 2003. The increased funding will provide for larger allocations to our grantees and result in more assistance being made available to those most in need.

These communities have fewer local resources for addressing housing and community and economic development needs and are, consequently, in greater need of Federal financial assistance. The lowest income residents of these communities deserve to share in Congress' vision of viable urban communities.

The CDBG program, authorized by the Housing and Community Development Act of 1974, as amended, is one of the most successful government aid programs to have ever been created. A testimony to this success is the longevity of the program and how it has adjusted over the years in response to changes in public policy over the nearly twenty-eight years since its inception. The CDBG program remains one of the most flexible local tools for revitalizing neighborhoods and encouraging economic development. Since its inception, the CDBG program has provided approximately \$100 billion to our nation's cities, towns, counties and states to undertake a wide range of activities that are locally determined. The imprint of the CDBG program can be seen in nearly every jurisdiction of this great country. As a former mayor and municipal worker, I can attest to the significant impact that the CDBG program has had on communities large and small.

Immediately prior to accepting my current position at HUD, I served as mayor of Syracuse, New York. This provided me with first hand knowledge of the usefulness of the CDBG program as a tool to encourage revitalization and growth, especially in older, poorer cities. More than that, however, was the appreciation I developed for the devolution of this wonderful Federal program back to the community

level and for the insightfulness of the designers of this program in recognizing the basic truth that the people know what their needs are better than government officials. As a mayor, I often interacted with mayors and other officials on issues related to community development and the dwindling availability of resources. The CDBG program, however, has remained one of the most useful and dependable sources of funding for municipalities. In fact, our proposed reduction, not elimination, of funding to the wealthiest communities will still provide those communities with a steady, annual funding stream – albeit at a lower level.

There are currently 865 cities and 158 counties “entitled” to receive CDBG funds directly from HUD; these are our entitlement communities. In addition, 49 states and the Commonwealth of Puerto Rico award more than 3,000 grants to smaller cities and counties from CDBG funds allocated to the states by HUD each year. HUD administers CDBG funds to Hawaii’s three nonentitlement counties.

Within this vast number of grantees exists a wide variety of recipients, some quite wealthy, especially when compared with the poorest grantees. It is, therefore, quite understandable that calls would be made to re-evaluate the method of allocating the limited

resources of the CDBG program. The continually increasing number of grant recipients has resulted in CDBG funds being stretched further and further with, in some localities, a lessening of the impact CDBG dollars can have on local housing, neighborhood development, public facilities, economic development and the provision of social services.

Even though CDBG formula funding has grown 11 percent since 1980, many large cities have seen a decrease in their CDBG funds, while some of their wealthy suburbs have received increased funding. For example, New York City's 2002 CDBG grant was 16 percent less than its 1980 grant, while over this same time period Greenwich, CT's CDBG funding increased 43 percent and Westchester County's increased 51 percent. Likewise, Boston's funding decreased 5 percent, while Newton's increased 11 percent, over the same time period. Even some distressed cities have seen substantial decreases in their CDBG funding over the past 20 years. St. Louis and Cleveland, with per capita incomes less than three-fourths the national average, receive 21 percent less CDBG dollars today than they did in 1980. This proposal represents a small, but important step in redirecting CDBG dollars from areas with sufficient fiscal capacity to

meet their housing and community development needs to those communities with greater needs and fewer resources.

While the CDBG program may be heralded as the dependable flagship of Federal financial resources, the Department clearly recognizes that current economic realities require at least some rethinking of how we do business. The Department supports targeting of CDBG funds to provide assistance to lower income persons to the greatest extent permissible under the Housing and Community Development Act of 1974 (the Act), as amended.

H.R. 1191, a bill introduced to amend this Act, proposes a fairly stringent targeting of CDBG funds in an effort to assure that the needs of the lowest income communities are met. With respect to H.R. 1191, it would be premature for the Department to respond to this bill, at this time, since it has not yet been voted out of committee. We recognize that there is some concern with this bill because while it will demand more targeting it will significantly limit, for many communities, the very flexibility that has been the cornerstone of the program.

In addition, the Department was asked by Congress to submit a study of targeting of CDBG funds and HUD's administrative oversight of the program. That study was delivered to the House Committee on

Appropriations yesterday. The report emphasized three things: (1) targeting of CDBG funds is accomplished by the formulas used in determining allocations; (2) the program requires that 70 percent of a grantee's CDBG funds principally benefit low- and moderate-income persons; and (3) activities identified as principally benefiting persons of low- and moderate-income generally assist persons of whom at least 51 percent are low- and moderate-income. In addition, our analysis shows that, for low- and moderate-income benefit activities completed during FY 1998 – FY 2000, 84 cents of each CDBG dollar expended directly benefited low- and moderate-income persons. Finally, HUD's administrative oversight of these targeting requirements is based upon verifiable quantitative data. Our systematic and continuous review of our data ensures that grantees are undertaking activities that are principally benefiting low- and moderate-income persons.

Notwithstanding the foregoing, the Department has proposed an adjustment to the method of allocating CDBG funds: a reduction in the level of funds provided to the wealthiest communities to provide more funds for distribution to the poorest communities.

Currently, CDBG funds are already targeted in two ways: first, by use of need-based formulas; and second, by requiring that 70% of

a grantee's allocation benefit low- and moderate-income persons. In the first instance, CDBG program funds are allocated by use of one of two need-based formulas. The first (and original) formula is calculated by counting poverty, 50 percent; population, 25 percent; and overcrowded housing, 25 percent. The second formula is calculated by counting poverty at 30 percent; population growth lag from 1960 to 2000, at 20 percent; and age of housing stock (number of units constructed before 1940), at 50 percent. A locality's annual allocation is determined by the higher of the two formulas with slight pro rating to assure that the total amount of funds distributed does not exceed the total amount appropriated.

In addition to the use of two needs-based formulas to determine annual local allocations, the Act requires that not less than 70 percent of the CDBG funds provided to states and entitlement communities be used for the support of activities that benefit low- and moderate-income persons. Low- and moderate-income person means a member of a household having an income equal to or lower than the Section 8 low-income limit established by HUD. Generally, the incomes are less than 80 percent of the median income in an area.

While the Act and our regulations require that CDBG funds primarily benefit low- and moderate-income persons, more can be done to further target these very funds to the neediest grantees. In a period of reduced budget authority such as we are experiencing now, it is apparent that a strong effort must be made to adjust allocations of our limited funds. Our wealthiest recipient communities would have their annual formula allocation reduced, but not eliminated, to provide for needier communities to receive more adequate levels of funding.

The Department is currently proposing a change in determining grantee eligibility that may better target our funds in just such a way. Our 2003 budget proposes reducing the annual CDBG allocation to the wealthiest one percent of eligible grantees, those with per capita income two times the national average (\$14,420 in 1989), by 50 percent. Using the latest available data (from the 1990 census), an example of the effect of such a reduction, based upon FY 2002 data, would provide approximately \$8.6 million that could be distributed, by formula, to all remaining grantees. This would also allow budget resources to be shifted to other efforts, such as the proposed Colonias Gateway Initiative that will serve some of the most distressed communities in the country.

The communities that would lose funding based upon the 1990 census data currently available are:

Community	Per Capita Income as a multiple of National Average	FY 2002 CDBG funds
Greenwich, CT.	3.2	\$1,157,000
Newport Beach, CA	3.2	\$ 490,000
Lower Marion, PA	2.9	\$1,407,000
Naples, FL	2.9	\$ 149,000
Palo Alto, CA	2.3	\$ 808,000
Westchester County, NY	2.1	\$7,004,000
Santa Monica, CA	2.0	\$1,787,000
Brookline, MA	2.0	\$1,872,000
Newton, MA	2.0	\$2,663,000
TOTAL		\$17,337,000

The following communities were inadvertently listed in the original 2003 budget summary: Colorado Springs, CO; Penn Hills, PA; Virginia Beach, VA; and Malden, MA.

By reallocating the funds from the wealthiest communities, the Department will be able to target CDBG funds to communities that have lesser local resources for housing, community and economic development needs. The nine communities (with a total CDBG allocation level of \$17.3 million) were identified from 1990 census data as meeting the threshold of exceeding the per capita income by 200 percent. However, these communities may change once the 2000 census data is available. A final analysis of the actual communities to receive a reduction of a portion of their CDBG funds will not be possible until the new per capita income data is available in the fall of 2002.

Finally, let me address possible changes to the basic formula to distribute funds to our grantees. In FY 2002, we had access to 2000 census data on population and growth lag. That was used. For the FY 2003 allocation we expect to have 2000 census data for the remaining formula factors of poverty, pre-1940 housing and housing overcrowding. We will not have, however, data for the whole country until late fall 2002. When this complete data is available, we will conduct a formula study. We do not expect to have that formula study completed until sometime in the spring of 2003. Congress could then consider the targeting issue and decide if changes should be made to the allocation formula in FY 2004. The Department has undertaken similar studies following each decennial census.

Thank you very much. This ends my opening remarks.